

**HARVEY PUBLIC SCHOOL DISTRICT
HARVEY, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the President and Board Members
Harvey Public School District
Harvey, North Dakota

We have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund of the Harvey Public School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and each major fund of the Harvey Public School District as of June 30, 2016, and the respective changes in modified cash basis financial position and the respective budgetary comparison for the modified cash basis General Fund for the year then ended in accordance with the modified cash basis of accounting as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harvey Public School District's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

October 3, 2016

HARVEY PUBLIC SCHOOL DISTRICT
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2016

	Governmental Activities
ASSETS	
Current assets	
Cash and equivalents	\$ 2,166,490
Investments	570,932
Total current assets	2,737,422
Non-current assets	
Capital assets	3,993,834
Less: Accumulated depreciation	(2,268,673)
Total capital assets	1,725,161
Total assets	4,462,583
LIABILITIES	
Current liabilities	
Special assessments, due within one year	1,900
Non-current liabilities	
Special assessments, due in more than one year	39,349
Total non-current liabilities	39,349
Total liabilities	41,249
NET POSITION	
Net investment in capital assets	1,683,912
Restricted for:	
Capital projects	714,007
Special revenue	299,136
Unrestricted	1,724,279
Total net position	\$ 4,421,334

SEE NOTES TO THE FINANCIAL STATEMENTS

HARVEY PUBLIC SCHOOL DISTRICT
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense)</u>
	<u>Expenses</u>	<u>Charges for</u>	<u>Operating</u>	<u>Revenues and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in Net Position</u>
			<u>Contributions</u>	<u>Governmental Activities</u>
Governmental activities				
Instruction:				
Regular	\$ 2,318,614	\$ 21,126	\$ 139,469	\$ (2,138,796)
Special education	535,892	-	145	(535,747)
Vocational education	280,370	-	26,251	(254,119)
Total instruction	<u>3,134,876</u>	<u>21,126</u>	<u>165,865</u>	<u>(2,928,662)</u>
Support services:				
Pupil services	115,667	-	-	(115,667)
Instructional staff services	131,858	-	-	(131,858)
General administration services	375,618	-	-	(375,618)
School administration services	285,838	-	-	(285,838)
Operations and maintenance	659,045	-	-	(659,045)
Pupil transportation services	269,013	-	222,545	(46,468)
Extracurricular activities	155,123	-	-	(155,123)
Food services	295,440	161,585	108,281	(25,574)
Interest on long-term debt	2,275	-	-	(2,275)
Total support services	<u>2,289,877</u>	<u>161,585</u>	<u>330,826</u>	<u>(1,797,466)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				1,429,036
Property taxes, levied for technology				90
Other taxes				242
State aid not restricted for specific purpose				
Per pupil aid				3,391,076
Interest income and other revenues				82,442
Total general revenues				<u>4,916,015</u>
Change in net position				189,887
Total net position - beginning				4,231,447
Total net position - ending				<u>\$ 4,421,334</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

HARVEY PUBLIC SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
JUNE 30, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Reserve</u>	<u>Food Service</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 1,148,531	\$ 714,007	\$ 299,136	\$ 4,816	\$ 2,166,490
Investments	570,932	-	-	-	570,932
Total assets	<u>1,719,463</u>	<u>714,007</u>	<u>299,136</u>	<u>4,816</u>	<u>2,737,422</u>
FUND BALANCES:					
Restricted for:					
Capital projects	-	714,007	-	-	714,007
Special revenues	-	-	299,136	-	299,136
Assigned to:					
Food service	-	-	-	4,816	4,816
Unassigned	1,719,463	-	-	-	1,719,463
Total fund balances	<u>1,719,463</u>	<u>714,007</u>	<u>299,136</u>	<u>4,816</u>	<u>2,737,422</u>
Total liabilities and fund balances	<u>\$ 1,719,463</u>	<u>\$ 714,007</u>	<u>\$ 299,136</u>	<u>\$ 4,816</u>	<u>\$ 2,737,422</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

HARVEY PUBLIC SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
MODIFIED CASH BASIS
JUNE 30, 2016

Total fund balance, governmental funds	\$	2,737,422
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		1,725,161
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Certain long-term liabilities are not due and payable in the current period, and therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Special assessments		(41,249)

Net position of governmental activities in the Statement of Net Position	<u>\$</u>	<u>4,421,334</u>
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SEE NOTES TO THE FINANCIAL STATEMENTS

HARVEY PUBLIC SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Reserve</u>	<u>Food Service</u>	<u>Total Governmental Funds</u>
REVENUES					
Property taxes	\$ 1,216,342	\$ 199,144	\$ 13,882	\$ -	\$ 1,429,368
Other local sources	58,357	44,618	583	161,595	265,153
State sources	3,653,147	-	-	-	3,653,147
Federal sources	158,692	-	-	108,281	266,973
Total revenues	<u>5,086,538</u>	<u>243,762</u>	<u>14,465</u>	<u>269,876</u>	<u>5,614,641</u>
EXPENDITURES					
Instruction:					
Regular	2,284,361	-	-	-	2,284,361
Special education	535,892	-	-	-	535,892
Vocational education	304,278	-	-	-	304,278
Total instruction	<u>3,124,531</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,124,531</u>
Support services:					
Pupil services	115,667	-	-	-	115,667
Instructional staff services	129,728	-	-	-	129,728
General administration services	375,618	-	-	-	375,618
School administration services	285,838	-	-	-	285,838
Operations and maintenance	341,621	88,849	-	-	430,470
Pupil transportation services	357,128	-	-	-	357,128
Extracurricular	153,897	-	-	-	153,897
Food service	-	-	-	295,440	295,440
Debt Service:					
Principal	1,810	-	-	-	1,810
Interest	2,275	-	-	-	2,275
Total support services	<u>1,763,582</u>	<u>88,849</u>	<u>-</u>	<u>295,440</u>	<u>2,147,871</u>
Capital Outlays	<u>274,635</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>274,635</u>
Total expenditures	<u>5,162,748</u>	<u>88,849</u>	<u>-</u>	<u>295,440</u>	<u>5,547,037</u>
Excess (deficiency) of revenues over expenditures	<u>(76,210)</u>	<u>154,913</u>	<u>14,465</u>	<u>(25,564)</u>	<u>67,604</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	19,993	19,993
Transfers out	(19,993)	-	-	-	(19,993)
Total other financing sources and uses	<u>(19,993)</u>	<u>-</u>	<u>-</u>	<u>19,993</u>	<u>-</u>
Net change in fund balances	(96,203)	154,913	14,465	(5,571)	67,604
Fund balances - beginning	1,815,666	559,094	284,671	10,387	2,669,818
Fund balances - ending	<u>\$ 1,719,463</u>	<u>\$ 714,007</u>	<u>\$ 299,136</u>	<u>\$ 4,816</u>	<u>\$ 2,737,422</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

HARVEY PUBLIC SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE WITH
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2016

Net change in fund balances - total governmental funds: \$ 67,604

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which capital outlays of \$274,635 exceeded depreciation of \$154,162 in the current period. 120,473

Repayment of long-term debt is reported as an expenditure in governmental funds. However, the repayment reduces long-term liabilities in the Statement of Net Position. 1,810

Change in net position of governmental activities \$ 189,887

SEE NOTES TO THE FINANCIAL STATEMENTS

HARVEY PUBLIC SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL - GENERAL FUND
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u> <u>Original and Final</u>	<u>Actual Amounts,</u> <u>Budgetary Basis</u>	<u>Variance with Final</u> <u>Budget - Positive</u> <u>(Negative)</u>
REVENUES			
Property taxes	\$ 1,153,723	\$ 1,216,342	\$ 62,619
Other local sources	57,000	58,357	1,357
State sources	3,707,571	3,653,147	(54,424)
Federal sources	207,645	158,692	(48,953)
Total revenues	<u>5,125,939</u>	<u>5,086,538</u>	<u>(39,401)</u>
EXPENDITURES			
Instruction:			
Regular	2,216,221	2,284,361	(68,140)
Special education	528,848	535,892	(7,044)
Vocational education	332,414	304,278	28,136
Total instruction	<u>3,077,483</u>	<u>3,124,531</u>	<u>(47,048)</u>
Support services:			
Pupil services	120,553	115,667	4,886
Instructional staff services	132,650	129,728	2,922
General administration services	373,915	375,618	(1,703)
School administration services	279,474	285,838	(6,364)
Operations and maintenance	707,093	341,621	365,472
Pupil transportation services	352,888	357,128	(4,240)
Extracurricular	199,020	153,897	45,123
Debt Service:			
Principal and interest	-	4,085	(4,085)
Total support services	<u>2,165,593</u>	<u>1,763,582</u>	<u>402,011</u>
Capital outlay	-	274,635	(274,635)
Total Expenditures	<u>5,243,076</u>	<u>5,162,748</u>	<u>80,328</u>
Excess (deficiency) of revenues over expenditures	<u>(117,137)</u>	<u>(76,210)</u>	<u>40,927</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(27,000)	(19,993)	7,007
Total other financing sources and uses	<u>(27,000)</u>	<u>(19,993)</u>	<u>7,007</u>
Net change in fund balances	(144,137)	(96,203)	47,934
Fund balances - beginning	1,815,666	1,815,666	-
Fund balances - ending	<u>\$ 1,671,529</u>	<u>\$ 1,719,463</u>	<u>\$ 47,934</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

HARVEY PUBLIC SCHOOL DISTRICT
STATEMENT OF ASSETS AND LIABILITIES
FIDUCIARY FUNDS
MODIFIED CASH BASIS
JUNE 30, 2016

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 196,349
Total assets	<u>\$ 196,349</u>
LIABILITIES	
Due to students	\$ 139,770
Due to others	<u>56,579</u>
Total liabilities	<u>\$ 196,349</u>

SEE NOTES TO THE FINANCIAL STATEMENTS

HARVEY PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Principal Activity

Harvey Public School District operates the elementary and high school in the City of Harvey, North Dakota.

Reporting entity

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of an organization's governing body and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organizations resources. Component units may also include organizations that are fiscally dependent on the District. Fiscal dependence can include the District's approval of the budget, issuance of debt, and/or levying of taxes for the organization.

Based on the above criteria, there are no component units included in the School District's reporting entity.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The District's significant accounting policies are described below.

Basis of Presentation

The District's basic financial statements consist of government-wide statements and fund financial statements.

Government-wide Financial Statements

The government-wide financial statements consist of a Statement of Net Position and a Statement of Activities. These statements display information about the District as a whole.

The Statement of Net Position presents the financial condition of the governmental activities of the District at year-end.

The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. The statement identifies the extent to which each governmental function is self-financing or drawing from the general revenues of the District. Direct expenses are expenses that are specifically associated with a service, program or department. The direct expenses are clearly identifiable to a particular function. Program revenues include charges to recipients for goods or services

HARVEY PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2016

offered by the program, grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements do not include fiduciary funds or component units that are fiduciary in nature.

Fund Financial Statements

In order to aid financial management and to demonstrate legal compliance, the District segregates transactions related to certain functions or activities in separate funds. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The focus of the governmental fund financial statements is on major funds. Each major fund is presented as a separate column in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. There are no nonmajor funds shown on the financial statements. The fiduciary funds are reported by type.

Fund accounting – The District's funds consist of the following:

Governmental Funds - Governmental funds are utilized to account for most of the District's governmental functions. The reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which the obligation will be paid. Fund balance represents the difference between the governmental fund assets and liabilities. The District's major governmental funds are as follows:

General fund - This fund is the general operating fund of the District. It accounts for all financial resources except those required to be accounted for in another fund.

Capital projects fund - This fund accounts for the acquisition and construction of the District's major capital facilities.

Reserve fund – This fund is set aside to meet any unexpected costs that may arise.

Food service fund – This fund accounts for the activity and financial resources that support the District's hot lunch and breakfast programs.

Fiduciary Funds - The reporting focus of fiduciary funds is on net position and changes in net position. The District's two fiduciary funds are agency funds. These agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency funds consist of the following:

Student Activity fund - The fund accounts for the financial transactions related to the District's student activity programs.

Scholarship fund - The fund accounts for the flow through of funds received by the District that are used to fund scholarships for students.

HARVEY PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2016

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus, within the limitations of the modified cash basis of accounting.

Fund Financial Statements

The governmental funds are accounted for using a flow of current financial resources measurement focus, as applied to the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance reports on the sources and uses of current financial resources.

The current financial resources measurement focus differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Due to these differences, the District's financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for government funds.

Fiduciary funds also use the economic resources measurement focus.

Basis of Accounting

The basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Government-wide financial statements are prepared on the modified cash basis of accounting. This basis recognizes assets, net position, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements. In accordance with the modified cash basis of accounting, the District reports capital assets and debt. Payments for payroll benefit liabilities are reported in the year that they are incurred and budgeted. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The District's governmental funds use the modified cash basis of accounting. As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for services billed or provided but not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the government-wide statements would be prepared on the accrual basis of accounting and the governmental fund financial statements would be prepared on the modified accrual basis of accounting.

HARVEY PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2016

Budgets and budgetary accounting

The District's Board follows the procedures established by North Dakota law for the budgetary process. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the preceding year. Formal budgetary integration is employed as a management control device during the year for the general fund. The school board must adopt the final budget on or before August 15.

The Board may amend the budget during the year; however, no amendment changing the taxes levied can be made after October 10. The taxes levied must be certified to the county auditor by October 10.

All appropriations lapse at the close of the Districts' fiscal year. The balance of the appropriation reverts back to each respective fund and is available for future appropriation.

Cash and Cash Equivalents

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are certificates of deposit with maturities of more than three months. North Dakota state statute authorizes school districts to invest their surplus funds in: a) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress, b) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for the agreement to repurchase are of the type listed above, c) Certificates of deposit fully insured by the Federal Deposit Insurance Corporation d) Obligations of the state.

Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported as assets in the fund financial statements. All capital assets are recorded at cost (or estimated historical cost). The assets are updated for additions and retirements during the District's fiscal year.

The District has established a capitalization threshold of \$5,000. Donated fixed assets are recorded at their fair market values at the date received. The District does not have any infrastructure assets. Improvements that significantly extend the useful life of the asset are also capitalized.

The District's land and construction in progress costs are capitalized but are not depreciated. Interest associated with construction in progress is capitalized as part of the assets original cost. All the remaining capital assets are depreciated over their estimated useful lives on a straight-line basis. The District has established the following useful lives:

HARVEY PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2016

Land Improvements	20 years
Buildings and Improvements	50 years
Equipment and Fixtures	5 to 20 years
Vehicles	8 years

Long-term Obligations

All long-term obligations related to debt are reported in the District's government wide financial statements. The District's governmental fund financials report only those obligations that will be paid from current financial resources.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities related to those assets. Unrestricted Net Position is the net amount of assets and liabilities that are not included in the determination of net investments in capital assets or the restricted component of net position.

Net Position Flow Assumption

Sometimes, the government will fund outlays for particular purposes for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted-net position to have been depleted before unrestricted – net position is applied.

Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – consists of amounts that are not in spendable form, such as inventory and prepaid items. The District does not have any fund balance classified as nonspendable.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the North Dakota Department of Education.

Committed – consists of internally imposed constraints. These constraints are established by Resolution of the School Board. The District does not have any fund balances classified as committed.

Assigned – consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the District's intended use. These constraints are established by the School Board and/or management.

HARVEY PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2016

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order; 1) committed, 2) assigned and 3) unassigned.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of the financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Revenue Recognition - Property Taxes

Property taxes attach as an enforceable lien on property January 1. A five percent reduction is allowed if paid by February 15. Penalties and interest are added March 15 if the first half of the taxes has not been paid. Additional penalties are added October 15, if not paid. Taxes are collected by the county and usually remitted monthly to the school district.

Property taxes are limited by state laws. All school district tax levies are in compliance with state laws.

NOTE 3 CONCENTRATION OF CREDIT RISK

Custodial Credit Risk

Custodial credit risk is the risk associated with the failure of a depository institution. In the event of a depository financial institution's failure, the District would not be able to recover the deposits or collateralized securities that are in the possession of the outside parties. The District does not have a formal policy regarding deposits. The fair value of the collateral pledged must be equal to or greater than 110% of the deposits not covered by insurance on bonds.

The District maintains cash on deposit at various financial institutions. The amount on deposit was insured by the FDIC up to \$250,000 at each institution. At June 30, 2016, the District had approximately \$1,275,000 in excess of the FDIC limits on deposit. The amount in excess was covered by pledged securities at June 30, 2016.

HARVEY PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2016

NOTE 4 ECONOMIC DEPENDENCY

Harvey Public School District No. 38 receives a substantial amount of its support from federal and state governments. A significant reduction in the level of this support, if this were to occur, may have a material effect on the District's programs and therefore on its continued operations.

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	<u>7/1/2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>6/30/2016</u>
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 40,451	\$ -	\$ 40,451
Total capital assets not being depreciated	<u>-</u>	<u>40,451</u>	<u>-</u>	<u>40,451</u>
Capital assets being depreciated:				
Land improvements	97,127	6,265	-	103,392
Buildings and improvements	2,633,589	-	-	2,633,589
Machinery and equipment	549,335	87,059	-	636,394
Vehicles	494,848	140,860	55,700	580,008
Total capital assets being depreciated	<u>3,774,899</u>	<u>234,184</u>	<u>55,700</u>	<u>3,953,383</u>
Less accumulated depreciation				
Land improvements	57,432	4,883	-	62,315
Buildings and improvements	1,450,577	70,797	-	1,521,374
Machinery & equipment	290,931	32,747	-	323,678
Vehicles	371,272	45,734	55,700	361,306
Total accumulated depreciation	<u>2,170,212</u>	<u>154,161</u>	<u>55,700</u>	<u>2,268,673</u>
Total capital assets being depreciated, net	<u>1,604,687</u>	<u>80,023</u>	<u>-</u>	<u>1,684,710</u>
Net capital assets for governmental activities	<u>\$ 1,604,687</u>	<u>\$ 120,474</u>	<u>\$ -</u>	<u>\$ 1,725,161</u>

In the governmental activities section of the statement of activities, depreciation was charged to expense in the following governmental functions:

Regular	\$ 10,605
Operations and maintenance	89,585
Pupil transportation	52,745
Extracurricular	<u>1,226</u>
Total	<u>\$ 154,161</u>

HARVEY PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 June 30, 2016

NOTE 6 LONG-TERM DEBT OBLIGATIONS

Special Assessments

The District is in the process of paying off several special assessments to the City of Harvey with interest rates of 4.0% and 5.375% which are scheduled to be paid off through 2033. The following is a schedule of the future expected principal and interest requirements to retire the special assessment long-term debt obligations as of June 30, 2016:

Fiscal Year	Principal	Interest	Total
2017	\$ 1,900	\$ 2,185	\$ 4,085
2018	1,995	2,088	4,083
2019	2,098	1,986	4,084
2020	2,204	1,881	4,085
2021	2,318	1,769	4,087
2022-2026	10,517	7,189	17,706
2027-2031	13,666	4,039	17,705
2032-2033	6,551	532	7,083
Total	<u>\$ 41,249</u>	<u>\$ 21,669</u>	<u>\$ 62,918</u>

Changes in long-term liabilities

The following is a summary of the activity in long term liabilities for the year ended June 30, 2016:

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Due Within One Year
Governmental Activities:					
Special assessments	\$ 43,058	\$ -	\$ (1,810)	\$ 41,248	\$ 1,900
Totals	<u>\$ 43,058</u>	<u>\$ -</u>	<u>\$ (1,810)</u>	<u>\$ 41,248</u>	<u>\$ 1,900</u>

NOTE 7 PENSION PLAN

NORTH DAKOTA TEACHER'S FUND FOR RETIREMENT

The School District contributes to the North Dakota Teachers' Fund for Retirement (TFFR); a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Dakota. TFFR provides for retirement, disability, and survivor benefits to plan members and beneficiaries. Benefit and contribution provisions are administered in accordance with Chapter 15-39.1 of the North Dakota Century Code (NDCC). TFFR issues a publicly available financial report that includes financial statements and required supplementary information for TFFR. The report is located on the website, www.nd.gov/rio, or may be obtained by writing to TFFR, P.O. Box 7100, Bismarck, North Dakota, 58507-7100.

HARVEY PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2016

Plan members are required to contribute 11.75% of their annual covered salary and the School District is required to contribute 12.75% of the teachers' salary. The school district may elect to pay all or a portion of the member's contribution as a salary supplement under certain employer payment plans. The contribution requirements of plan members and the School District are established and may be amended by the State legislature. The School District's contribution to TFFR for the fiscal years ended June 30, 2016 was \$572,923.

The District is reporting on the modified cash basis, thus is not required to report the net pension liability, deferred inflows of resources and outflows of resources as required by GASB Statement No. 68, Accounting and Financial Reporting for Pensions. As of June 30, 2015, the measurement date, the District's proportionate share of the overall TFFR allocation was 0.348746% and its portion of the net pension liability was \$4,561,093.

NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

The District participates in the North Dakota Public Employees' Retirement System (NDPERS) administered by the State of North Dakota. Following is a brief description of the plan.

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the District. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 7% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The District has not elected to implement a salary reduction agreement. The District is required to contribute 7.12% of each participant's salary as the employer's share. In addition to the 7.12% employer contribution the employer is required to contribute 1.14% of each participating employee's gross wage to a pre-funded retiree health insurance program. The required contributions are determined using an entry age normal actuarial funding method and

HARVEY PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 June 30, 2016

are included in state statute. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The District's required and actual contribution to NDPERS for fiscal year ended June 30, 2016, was \$81,101.

The District is reporting on the modified cash basis, thus is not required to report the net pension liability, deferred inflows of resources and outflows of resources as required by GASB Statement No. 68, Accounting and Financial Reporting for Pensions. As of June 30, 2015, the measurement date, the District's proportionate share of the overall NDPERS allocation was 0.055227% and its portion of the net pension liability was \$375,534.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505; PO Box 1657; Bismarck, ND 58502-1657.

NOTE 8 NONMONETARY TRANSACTIONS

The District receives food commodities from the federal government to subsidize its hot lunch program. The market value of commodities received for the year ended June 30, 2016 was \$19,822.

NOTE 9 CONTINGENCIES

The District received financial assistance from federal and state agencies in the form of grants. The expenditures of funds received under these programs generally requires compliance with items and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund. The District's management believes it has complied with all applicable grant provisions. In the opinion of management, any possible disallowed claims would not have a material adverse effect on the overall financial position of the District as of June 30, 2016.

NOTE 10 TRANSFERS

The transfers as of June 30, 2016 consist of the following:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Food Service	General Fund	\$ 19,993
		<u>\$ 19,993</u>

The transfer was made to cover food service expenditures by the General Fund.

NOTE 11 NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide

HARVEY PUBLIC SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2016

citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This Statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pensions provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

Management has not yet determined the effect these Statements will have on the entity's financial statements.

NOTE 12 SUBSEQUENT EVENTS

No significant events occurred subsequent to the District's year end. Subsequent events have been evaluated through October 3, 2016, which is the date these financial statements were available to be issued.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To The President and Board Members
Harvey Public School District
Harvey, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities and each major fund of the Harvey Public School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 3, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. These are reported as findings 2016-001 and 2016-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Harvey Public School District's Response to Findings

Harvey Public School District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Harvey Public School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.

Bismarck, North Dakota

October 3, 2016

HARVEY PUBLIC SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2016

Findings Relating to Financial Statements

2016-001: *Preparation of Financial Statements – Significant Deficiency*

Criteria: An appropriate system of internal control requires the entity to determine that financial statements are properly stated in compliance with the modified cash basis of accounting. This requires the entity's personnel to maintain knowledge of current accounting principles and required financial statement disclosures.

Condition: The District's personnel prepare periodic financial information for internal use that meets the needs of the board. However, the District does not have internal resources to prepare full-disclosure financial statements for external reporting.

Cause: The District's internal controls have not been designed to address the specific training needs that are required of its personnel to obtain and maintain knowledge of current accounting principles and required financial statement disclosures.

Effect: An appropriate system of internal controls is not present to make a determination that financial statements and the related disclosures are fairly stated in compliance with the modified cash basis of accounting. However, the entity is aware of the deficiency and addresses it by reviewing and approving the completed statements prior to distribution to the end users.

Recommendation: We recommend that the entity reviews its current training system to determine if it is cost effective for the entity to obtain this knowledge internally. As a compensating control the entity should establish an internal control policy to document the annual review of the financial statements and schedules and to review a financial statement disclosure checklist.

Views of responsible officials and planned corrective action:

The District has reviewed their current system and due to the small size of the entity, it is not cost effective for the District to properly address this significant deficiency.

HARVEY PUBLIC SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSES - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

2016-002: *Segregation of Duties – Significant Deficiency*

Criteria: Generally, an appropriate system of internal control has the proper separation of duties between authorization, custody, record keeping and reconciliation functions.

Condition: There is not a system in place for accounting duties to be properly segregated between authorization, custody, record keeping and reconciliation.

Cause: Size and budget constraints limit the number of personnel within the accounting department.

Effect: The design of the internal control over financial reporting could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: The District should consider if segregation of duties could be improved with respect to the District's cash receipt and disbursement functions. The District should also consider if monitoring controls could be improved. While not a complete listing, some possible internal controls to consider are as follows:

- Periodic comparisons of direct deposit listing to amounts clearing in bank statements by someone other than the business manager.
- A separate party reviews the bank reconciliations and bank statements.

Views of responsible officials and planned corrective action:

Periodic comparisons are done of direct deposits clearing in the bank statement is done by someone other than the business manager. Also, a separate party reviews the bank reconciliations and bank statements. Bank reconciliations are completed using the District's accounting software and then reports are forwarded to the District Superintendent for review and signature.